SFG 2023 | LEVEL 1 | Test #11 – Solutions | ForumIAS

Q.1) The money multiplier in an economy increases with which one of the following?
a) Increase in the Cash Reserve Ratio in the banks
b) Increase in the Statutory Liquidity Ratio in the banks
c) Increase in the banking habit of the people
d) Increase in the population of the country

Ans) c
Exp) Option c is the correct answer.
The multiplier effect is an economic term, referring to the proportional amount of increase, or decrease, in final income that results from an injection, or withdrawal, of capital in effect. Money multiplier is a phenomenon of creating money in the economy in the form of credit creation. It measures the impact that a change in economic activity–like investment or spending–will have on the total economic output of something.
Option c is correct: Increase in Banking habits of the people can lead to increase in money multiplier in an economy. When a customer makes a deposit into a short-term deposit account, the banking institution can lend one minus the reserve requirement to someone else. While the original depositor maintains ownership of their initial deposit, the funds created through lending are generated based on those funds. If a second borrower subsequently deposits funds received from the lending institution, this raises the value of the money supply even though no additional physical currency actually exists to support the new amount.
Increase in the Cash Reserve Ratio in the banks, increase in the Statutory Liquidity Ratio will lead to decline in money multiplier because of reduced ability of the banks to lend.
An Increase in population of a country in itself do not have a direct impact on money multiplier
Source) UPSC CSE Pre 2021

Q.2) With reference to the 'Concept of Depreciation', consider the following statements:
1. It is a measure to account for the reduction in value of capital goods due to their wear and tear.
2. Unexpected/sudden destruction of goods are not taken into account while calculating depreciation.
3. In India, the Ministry of Finance decides the rates of depreciation of assets.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 3 only

Ans) a
Exp) Option a is the correct answer.
The term depreciation refers to an accounting method used to allocate the cost of a tangible or physical asset over its useful life. Depreciation represents how much of an asset's value has been used. It allows companies to earn revenue from the assets they own by paying for them over a certain period of time.
Statement 1 is correct: The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Depreciation is an **annual allowance for wear and tear of a capital good**. In other words, it is the cost of the good divided by number of years of its useful life. Assets such as machinery and equipment are expensive. Instead of realizing the entire cost of an asset in year one, companies can use depreciation to spread out the cost and match depreciation expenses to related revenues in the same reporting period. This allows a company to write off an asset's value over a period of time, notably its useful life.

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Statement 2 is correct: Depreciation of fixed capital assets refers to **normal wear and tear and foreseen obsolescence.** Depreciation is also called consumption of fixed capital. Loss of fixed assets happen on account of normal wear and tear, normal rate of accidental damages and expected obsolescence. Depreciation **does not take into account unexpected or sudden destruction or disuse of capital as can happen with accidents**, natural calamities or other such extraneous circumstances.
Statement 3 is incorrect: Every asset (except human beings) goes for depreciation in the process of their uses, which means they 'wear and tear'. The governments of the economies decide and announce the rates by which assets depreciate. It is **done in India by the Ministry of Commerce and Industry** and a list is published, which is used by different sections of the economy to determine the real levels of depreciations in different assets. For example, a residential house in India has a rate of 1 per cent per annum depreciation, an electric fan has 10 per cent per annum, etc., which is calculated in terms of the asset's price.
Source: NCERT Chapter 2 National Income Accounting
Ramesh Singh Chapter 1
https://www.investopedia.com/terms/d/depreciation.asp

Q.3) Which of the following items will **not** be taken into consideration during the calculation of Gross Domestic Product by the Expenditure Method?
1. Net increase in Inventory of businesses
2. Household expenditure on services
3. Government expenditure on public goods & services
4. Brokerage paid for the transfer of shares
5. Transfer Payments made by the Government
6. Import of agricultural commodities
Select the correct answer using the code given below:
a) 2, 3 and 6 only
b) 1, 4 and 5 only
c) 4 and 5 only
d) 5 only

Ans) d
Exp) Option d is the correct answer.
Calculation of Gross Domestic Product (GDP) - the value of goods and services produced in a country's economy - is one of the ways of calculating the national income of a country. There are multiple methods which may be used for calculating this figure. One of these methods is the Expenditure method.
GDP = C + G + I + X
Where, C is the consumptive expenditures of firms and households in an economy; G is the expenditure made by the government, I is the investment made by the household and the firms; and X is the Net of Exports and Imports in an economy.
Option 1 is incorrect: An **increase in Inventory** (**goods/ raw materials stocked** for production/ sale later) is considered as a form of **Capital Formation**, i.e. **Investment** by a firm. Hence it will be **included under the 'I' head** of the equation.
Option 2 is incorrect: Expenditure on **various services** by a **household** (example - paying **plumbers and electricians**, buying movie tickets, **booking cabs**, etc) is one of the **core economic activities** in a nation. It is i**ncluded** under the **'C' head** of the equation.
Option 3 is incorrect: The **expenses** incurred by the **government** to provide **public good and services** like **roads** (buying materials, hiring labour, etc), **free primary education** (constructing school buildings, paying

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salaries to teachers, etc) all would be i**ncluded** under the **'G' head** of the equation and hence included in calculation of GDP.

Option 4 is incorrect: When assets such as bonds and shares are procured, it signifies a change in ownership and does not affect the value of goods and services; hence, the transactions are not involved in expense calculation. However, **the brokerage paid for the transfer of shares is considered while using the expenditure method.**

Option 5 is correct: Transfer Payments are **one sided economic transaction** where a service or sum of money is provided without any service or monetary consideration in return. For example, **donations to charities, international aid** to poor war-torn countries, etc. Since these transactions **don't create any new value** of goods and services, they are **not included in the GDP.**

Option 6 is incorrect: All imports, whether of **agricultural commodities** for **food security** purposes (like **edible oil imports**) or **luxury item imports** like **gadgets**, etc, are **included** under the **head of 'X'** in the equation and hence included in the calculation for GDP.

Source: https://corporatefinanceinstitute.com/resources/knowledge/economics/expenditure-method/

NCERT Class 12 Economy - Macroeconomics, Ch-2

Q.4) Which of the following are the flaws in using Gross Domestic Product as an index for greater well-being of the people of a nation?

1. It does not take into account inequality in income.
2. It does not account for technological advancements
3. It excludes non-marketed activities.
4. It does not include externalities caused by an economic activity.

Select the correct answer from the code given below:

a) 1, 2 and 3 only
b) 1 and 4 only
c) 2, 3 and 4 only
d) 1, 2, 3 and 4

Ans) d

Exp) Option d is the correct answer.

Gross domestic product (GDP) is the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment.

Statement 1 is correct: GDP does not provide information about the distribution of income, which bears importantly on the welfare of individuals within an economy. GDP per capita is only an average. When GDP per capita rises by 5%, it could mean that GDP for everyone in the society has risen by 5% or that the GDP of some groups has risen by more while the GDP of others has risen by less—or even declined.

Statement 2 is correct: GDP does not factor in the increases in technology that improves the well-being. For example, the internet has made it easier for people to arrange for travel directly instead of going through a travel agent—these personal efforts to book travel are not counted in GDP but the services of a travel agent would be counted, leading GDP growth to understate the increase in welfare.

Statement 3 is correct: Another shortcoming of GDP as a measure of economic well-being is **GDP's exclusion of non-market activities that create welfare for households.** Because GDP uses market prices to value goods and services, it excludes the value of almost all activity that takes place outside markets. Child care provided in day-care centers is part of GDP, whereas child care by parents at home is not.

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Volunteer work also contributes to the well-being of those in society, but GDP does not reflect these contributions.

Statement 4 is correct: Externalities refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised). Externalities do not have any market in which they can be bought and sold thus they are not part of GDP calculation. For example, let us suppose there is an oil refinery which refines crude petroleum and sells it in the market. We can estimate the value added of the refinery. The value added of the refinery will be counted as part of the GDP of the economy. But in carrying out the production the refinery may also be polluting the nearby river. This may cause harm to the people who use the water of the river. Hence their well-being will fall.

Source: https://www.brookings.edu/wp-content/uploads/2018/08/WP43-8.23.18.pdf

Q.5) Which of the following are the correct implications of promoting 'Daylight Harvesting Technology'?

1. It will reduce carbon footprint of various facilities.
2. It reduces electrical lighting energy consumption.
3. It will improve building energy efficiency.

Select the correct answer using the codes given below:

a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

Statement 1, 2 and 3 are correct: Daylight Harvesting works on the simple premise that **facilities can optimally utilize natural light** where available and cut down on the use of artificial light during daylight hours. The Ministry of Science & Technology has decided to promote a unique Start-up in Daylight Harvesting Technology.

The implication of this policy can lead to a) **Reduced carbon footprint**, b) **Improve building energy efficiency** and c) **reduces electrical lighting energy consumption**.

Source: Ministry of Science & Technology has decided to promote a unique, possibly India's first, Start-up in latest Daylight Harvesting Technology-ForumIAS Blog

Benefits of Daylight Saving Time | Home Matters | AHS

Q.6) With reference to the methods of Gross Domestic Product calculation, consider the following statements:

1. In a fixed base index, weight assigned to various economic activities and goods automatically changes as the economy changes structurally.
2. In chain method, the base period keeps changing from year to year.
3. Unlike fixed base method, chain base method cannot be used if data on previous year is not available.

Which of the statements given above is/are correct?

a) 1 only
b) 2 only
c) 1 and 3 only
d) 2 and 3 only

Ans) d

Exp) Option d is the correct answer.

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The Indian government is mulling over the 'Chain-base' methodology for calculating the gross domestic product (GDP) that will keep updating weights assigned to various products and activities in the economy.
Statement 1 is incorrect: In a fixed base index, weight assigned to various economic activities and goods changes only if two conditions are met simultaneously- Economy should change its structure and Government should take action to change the weights and base. So, mere change in economic structure is not sufficient condition for change in weights automatically, government should also take active step to change it.
Statement 2 is correct: In **chain base method**, the **base period is not fixed**. In this method, the year immediately preceding the one for which the price index has to be calculated is assumed as the base year. In most cases, the shift resulted in significant changes in the numbers of the preceding year, indicating the better outcome produced by this method. The advantage of the chain base method is that the GDP estimation method will capture the structural changes by allowing new activity and items to be added every year in the economy.
Statement 3 is correct: A **disadvantage of the chain method** is that **if the data for any one of the year is not available** then we **cannot compute the chain index number for the subsequent period**. This is so because we need to calculate the link relatives, which are not possible to be calculated in this case. In fixed base method the base is fixed so data can be computed even if data on previous year is not available.
Source: https://economictimes.indiatimes.com/news/economy/policy/india-may-switch-to-chain-base-mechanism-for-gdp-estimates/articleshow/72480916.cms?from=mdr
https://www.theindianwire.com/business/govt-exploring-chain-base-method-for-estimating-gdp-with-changing-weights-240527/

Q.7) Opportunity cost analysis plays a crucial role in determining a business's capital structure. In this context what does Opportunity cost imply?
a) Minimum cost incurred for availing the benefits from an option chosen.
b) Any potential loss avoided by not selecting an option.
c) The cost incurred while selecting an option.
d) Any potential forgone benefit from a missed option not chosen.

Ans) d
Exp) Option d is the correct answer.
Option d is correct. Opportunity costs represent the potential benefits that an individual, investor, or business misses out on when choosing one alternative over another. Opportunity cost is the **forgone benefit that would have been derived from an option not chosen.**
Examples of opportunity cost include investing in a new manufacturing plant in Uttar Pradesh as opposed to Maharashtra, deciding not to upgrade company equipment, or opting for the most expensive product packaging option over cheaper options.
The formula for calculating an opportunity cost is simply the difference between the expected returns of each option. Consider a company is faced with the following two mutually exclusive
Source: https://www.investopedia.com/terms/o/opportunitycost.asp

Q.8) With reference to 'GDP Deflator', consider the following statements:
1. It is a more comprehensive measure of inflation as against wholesale price indices.
2. Unlike Consumer Price Index, GDP deflator accounts for all goods and services, whether produced domestically or outside.
3. In India, GDP deflator data is only available on a quarterly basis along with GDP estimates.

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Which of the statements given above is/are correct?
a) 1 only
b) 1 and 2 only
c) 1 and 3 only
d) 2 and 3 only

Ans) c
Exp) Option c is the correct answer.
The **GDP deflator, also called implicit price deflator**, is a measure of inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year. GDP price deflator measures the difference between real GDP and nominal GDP.
Statement 1 is correct: GDP Deflator helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than increase in output. Since the **deflator covers the entire range of goods and services produced in the economy** – as against the limited commodity baskets for the wholesale or consumer price indices – it is seen as a **more comprehensive measure of inflation**.
Statement 2 is incorrect: The GDP deflator underestimates true inflation. The reason is that the GDP deflator reflects the prices of all goods and services **produced domestically in the country**, whereas the **CPI** reflects the prices of all goods and services **bought by domestic Consumer** (whether they are produced in India or not is immaterial).
For example, suppose the price of an airplane produced by an Indian company which is sold to the Indian Air Force rises. Although the plane is a part of GDP it is not the part of the basket of goods and services purchased by an Indian consumer. Thus, the price increase shows up in the GDP deflator, but not in the CPI.
Now suppose the Toyota raises the price of its cars. Since Toyota cars are made in the Japan, they are not a part of India's GDP. But Indian consumers buy Toyotas and so the car is part of Indian consumers' basket of goods. Hence a price increase of an imported consumer good, such as Toyota, gets reflected in the CPI, but not in the GDP deflator.
Statement 3 is correct: The GDP deflator reflects up-to-date expenditure patterns**. GDP deflator is available only on a quarterly basis along with GDP estimates,** whereas CPI and WPI data are released every month.
Source: https://www.thehindu.com/business/Economy/what-is-the-gdp-deflator/article24489279.ece
Ramesh Singh Chapter 7 INFLATION AND BUSINESS CYCLE
https://www.economicsdiscussion.net/gdp/underestimation-of-inflation-by-gdp-deflator-with-calculation/15342

Q.9) In this market, there exist few sellers having large market shares. The firms are producing homogenous or differentiated products. Firms under this market are interdependent and fall in price of one firm affects the profits of all firms in the industry.
The above paragraph best describes which of the following markets?
a) Perfect competition
b) Monopoly
c) Monopolistic competition
d) Oligopoly

Ans) d
Exp) Option d is the correct answer.

Oligopoly refers to a market situation in which there are a **few firms selling homogeneous or differentiated products.** In India, markets for automobiles, cement, steel, aluminium, etc., are the examples of oligopolistic market.

1) Each firm produces a **significant portion of the total output.** There exists **severe competition among different firms** and each firm try to manipulate both prices and volume of production to outsmart each other.
2) Every seller influences and is influenced by the behaviour of other firms.
3) Firms under oligopoly are **interdependent.** A firm considers the action and reaction of the rival firms while determining its price and output levels. A change in output or price by one firm evokes reaction from other firms operating in the market. For example, market for cars in India is dominated by few firms (Maruti, Tata, Hyundai, Ford, Honda, etc.). A change by any one firm in any of its vehicle will induce other firms to make changes in their respective vehicles.

Knowledge Base:

Other features:

1) There are barriers to entry in oligopoly market. Patents, requirement of large capital, control over crucial raw materials, etc., are some of the reasons, which prevent new firms from entering into industry.
2) The oligopoly is likely to lie somewhere between the two extremes of monopoly and perfect competition.

Source: Microeconomics, NCERT XI, Chapter-6, Pg. 99

https://www.yourarticlelibrary.com/oligopoly-market/the-oligopoly-market-example-types-and-features-micro-economics/9140

Q.10) Recently, 'Pal – Dadhvav' massacre was seen in news. It is related to-

a) Russia-Ukraine war site
b) German paratroopers during World War II
c) Tribal uprising against British rule in India
d) Prisoner of war at Andaman and Nicobar Island

Ans) c

Exp) Option c is the correct answer.

On March 7,2022 the Gujarat government marked 100 years of the Pal-Dadhvav killings, calling it a massacre "bigger than the Jallianwala Bagh".

Pal – Dadhvav massacre took place on March 7,1922 in Pal-Chitariya and Dadhvaav villages of Sabarkantha district, then part of Idar state (present-day Gujarat). On this day, villagers from Pal, Dadhvav, and Chitariya had gathered on the banks of River Heir as part of the 'Eki movement' led by one Motilal Tejawat.

The movement was to protest against the land revenue tax (lagaan) imposed on the peasants by the British and feudal lords. However, the British Paramilitary force was on the hunt for Tejawat. They heard of this gathering and reached the spot. **Nearly 2000 Bhil Tribals under the leadership of Tejawat lifted their bows and arrows.** But the Britishers opened fire on them. Nearly 1,000 tribals (Bhils) fell to bullets. But Tejwat was taken safely from there, and later he returned to the spot to christen it 'Veer Bhumi'.

Recognition of Pal-Dadhvav massacre: The Pal-Dadhvav massacre was brought into focus at the Republic Day parade this year. The **Republic Day tableau** featured a seven-ft statue of Tejawat, inspired by the statue at the memorial. A song describing Tejawat as 'Koliyari no Vanio Gandhi' was also sung at the tableau.

Source: Explained: What was the Pal-Dadhvav massacre, whose centenary the Gujarat govt is observing? - ForumIAS Blog

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Q.11) Despite being a high saving economy, capital formation may not result in significant increase in output due to:
a) weak administrative machinery
b) illiteracy
c) high population density
d) high capital-output ratio

Ans) d
Exp) Option d is the correct answer.
If capital-output ratio is high, then capital formation may not result in significant increase in output. A high capital-output ratio means that the capital is less productive and thus even high investments does not guarantee significant increase in output.
Capital output ratio is the amount of capital needed to produce one unit of output. It assesses the amount of investment capital necessary for a country or other entity to generate the next unit of production.
Source) UPSC CSE Prelims 2018

Q.12) Which of the following statements are the correct with reference to Purchasing Power Parity (PPP)?
1. Purchasing Power Parity exchange rates stay relatively stable when compared with market exchange rate.
2. It helps in determining the differences in the quality of goods and services between the countries.
3. It takes into accounts the cost of non-traded goods and services like haircuts or massages.
4. It allows comparison of living costs and standards across different countries in the world.
Select the correct answer using the codes given below:
a) 1 and 4 only
b) 2, 3 and 4 only
c) 1, 3 and 4 only
d) 2 and 4 only

Ans) c
Exp) Option c is the correct answer.
Purchasing Power Parity (PPP) is a theory that compares the purchasing powers of currencies from different countries around the world. PPP theory aims to look at differing world economies as if they were on a single currency, creating parity between different world currencies. PPP can be used to determine how much more or less expensive it can be to live in another country.
Statement 1 is correct: PPP exchange rate helps to **determine trends in exchange rates over the long term**. Market exchange rates tend to move towards the PPP exchange rate. PPP exchange rates **stay relatively stable** when compared with financial world market rates. Comparing GDP using market rates can mean more volatility in comparisons, even when the individual countries' markets are stable.
Statement 2 is incorrect: Purchasing Power Parity **does not consider differences in the quality of goods between countries.** The same product, for example, can have a different quality in different countries. Thus, it is difficult for us to determine identical baskets of goods and services.
Consumer tastes and preferences also vary across countries. Often, manufacturers use a differentiation approach rather than product standardization. They adapt their offerings to local tastes in each country. And purchasing power parity does not capture such a difference.
Statement 3 is correct: Purchasing Power Parity accounts for **non-traded goods**. GDP measures a country's economic productivity as it relates to the sale of tangible, internationally traded goods. However, PPP **accounts for the cost of non-traded goods and services**–like haircuts or massages–which also speaks to the productivity of a given economy.

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Statement 4 is correct: Purchasing Power Parity provides real**-world examples of living costs and standards.** Every year, The **Economist releases a comparative list of what 55 countries around the world charge for a McDonald's Big Mac called the Big Mac Index.** This example of PPP uses a recognizable good as a point of comparison between the living costs around the world, which is similar to the research of the ICP. Laypeople can look at the PPP of different goods in different places, and get a sense of how expensive or affordable their current home economy is.
Source: https://penpoin.com/purchasing-power-parity/
https://www.masterclass.com/articles/purchasing-power-parity-explained

Q.13) Which of the following statements is correct regarding the term *Green GDP*?
a) It is the amount of investment made in sustainable activities in an economy.
b) It is the value of goods and services only created by climate friendly activities.
c) It is the value of goods and services calculated after accounting for monetary loss due to environmental damage.
d) It is the GDP value created by the forest resources of a nation.

Ans) c
Exp) Option c is the correct answer.
The standard **GDP** is a statistic that calculates the **value of goods and services** produced in a nation's **economy** in a particular year. It is generally a **measure of economic activity** in a country. It **assumes** that the **natural capital** (r**aw materials** such as timber, water, coal, petroleum, fertile soil, minerals, etc) that are **required as inputs** for these activities are **constant** and need no accounting.
However recently a new concept called "**Green GDP**" has come to the fore. It believes in **accounting** for the **value of raw materials** provided by **nature** freely as well as the **loss in monetary terms** due to **continuous depletion** of these resources - either due to **overexploitation** or due to **environmental damage** and **pollution** which renders them useless, or hampers in their regeneration.
Source: Indian Economy by Ramesh Singh, 12th edition, Glossary
https://www.thehindu.com/opinion/op-ed/natural-capital-in-the-21st-century/article23971804.ece
https://www.thehindu.com/news/national/centre-to-start-measuring-green-gdp-of-states/article24082165.ece

Q.14) With reference to Complementary Goods, consider the following statements:
1. If the price of a good increases, then the demand for the complementary good will increase simultaneously.
2. They compete with each other in an open market economy.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) d
Exp) Option d is the correct answer.
A complementary good is a product or service that provides value to another product or service. In other words, they are two things that the customer utilizes in conjunction with one another. Cereal and milk, for example, or a DVD and a DVD player.

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Statement 1 is incorrect: Complementary goods are products which are bought and used together. An **increase in the price of Good X will lead to a reduction in quantity demand for X and this might then lead to lesser demand for the complement Good Y**. Here Y is the complementary good to X. Complements are said to be in **joint demand.** For Example, an increase in the price of computer will lead to a decrease in the demand for the software package.
Hence, as the product's price rises, the user's demand for the complementary product declines. It is because customers are reluctant to buy the complementary good alone. **Therefore, the market price of the complementary good or service can decline as consumer demand weakens**.
Statement 2 is incorrect: Complementary goods are consumed together, whereas substitute goods are the ones that fulfill a common want. **Substitute goods are more like competitors** in the markets, whereas complementary goods are positively associated with one another.
An example of a substitute good can be **Coke and Pepsi (Competitors), whereas a complement good is the razor and the blades (Complementary)**.
Source: NCERT chapter 2 Theory of Consumer Behaviour
https://keydifferences.com/difference-between-substitute-goods-and-complementary-goods.html

Q.15) Recently, the term 'Temporary Protection Directive' (TPD) was seen in news. In this context, which one of the following statements correctly describe this term?
a) It is a directive for providing commando security cover to important personalities in India.
b) It is a United Nation Security Council guidelines for providing protection to social workers and Journalist working in War areas.
c) It is the European Commission's measure to provide immediate and temporary protection to displaced persons belonging to non-EU countries.
d) These are telecom guidelines by Telecom Regulatory Authority of India for 5G spectrum auction in the country.

Ans) c
Exp) Option c is the correct answer.
Responding to refugee crisis due to the Russian invasion of Ukraine, the **EU** has made the unprecedented decision to activate the European Union's Council Directive known as the **Temporary Protection Directive** (TPD). The war in Ukraine is the **first time that the EU has invoked** the TPD.
The European Commission describes **Temporary Protection Directive** as an exceptional measure to provide **immediate and temporary protection to displaced persons from non-EU countries** and those unable to return to their country of origin.
The directive applies when there is a risk that the standard asylum system is struggling to cope with demand stemming from a mass influx risking a negative impact on the processing of claims.
Source: What is the Temporary Protection Directive of 2001, and why has the EU invoked it for refugees of the Ukraine war? -ForumIAS Blog

Q.16) Which of the following statements regarding the Price Elasticity of Demand is correct?
a) It is the maximum amount a consumer is willing to pay for an additional unit of a product.
b) It is the amount of change in demand of a good due to change in its price.
c) It is the change in the demand of a good due to change in purchasing power of the consumer.
d) It is the practice of setting the price of a product equal to the extra cost of producing an extra unit.

Ans) b
Exp) Option b is the correct answer.

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Price elasticity measures how much the supply or demand of a product changes based on a given change in price.

Statement a is incorrect: The **maximum amount** a consumer is **willing to pay** for an **additional unit** of a product is referred to as the **Marginal Benefit** and not Price Elasticity of Demand. It is the measure of how the cost or value of a product changes. Companies need to take both concepts into consideration when manufacturing, pricing, and marketing a product.

Statement b is correct: Price elasticity of Demand measures **how much** the **demand** of a **product changes** based on a given **change in price**. Generally, the demand for goods that are easily replaceable is very volatile with respect to prices. A small increase in the price of such goods (termed as elastic goods) reduces their demand and vice versa.

Statement c is incorrect: The **change in demand** for a good or service caused by a **change in a consumer's purchasing power** resulting from a **change in real income** is termed as I**ncome Effect**, not the Price Elasticity of Demand.

This change can be the result of a rise in wages etc., or because existing income is freed up by a decrease or increase in the price of a good that money is being spent on.

Statement d is incorrect: In economics, the **practice** of **setting the price** of a product to **equal** the **extra cost of producing an extra unit** of output is called **Marginal Cost Pricing**, and not Price Elasticity of Demand. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labour.

Source: https://www.investopedia.com/terms/p/priceelasticity.asp#:~:text=Key%20Takeaways-,Price%20elasticity%20of%20demand%20is%20a%20measurement%20of%20the%20change,supply%20to%20change%20very%20much.

https://www.investopedia.com/ask/answers/040615/how-does-price-elasticity-affect-supply.asp#:~:text=Price%20elasticity%20of%20supply%20measures,decrease%20when%20its%20price%20decreases.

https://www.investopedia.com/ask/answers/051815/what-difference-between-marginal-benefit-and-marginal-cost.asp#:~:text=maximum%20amount%20a%20consumer

https://www.investopedia.com/terms/i/incomeeffect.asp

https://www.accountingtools.com/articles/marginal-cost-pricing

Q.17) Which of the following may indicate that an economy is facing deflation?

1. Rise in general price of goods
2. Fall in the money supply
3. Fall in the aggregate demand

Select the correct answer using the code given below:

a) 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) b

Exp) Option b is the correct answer.

Deflation causes the nominal costs of capital, labor, goods, and services to fall, though their relative prices may be unchanged.

Statement 1 is *incorrect*: Deflation is a **decrease in the general price level** of goods and services. In other words, deflation is negative inflation. When it occurs, the **value of currency increases** over time. Thus, more goods and services can be purchased for the same amount of money.

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Statement 2 is correct: Deflation happens when the demand for goods falls in relation to the supply. **The reduction in demand occurs due to a reduction in the supply of money in an economy**. In simple words, a shortage of money in circulation leads to a reduction in demand for goods, thus leading to deflation. A fall in money supply can mean that people, instead of spending their money immediately, prefer to save more of it. This discourages spending in the economy. Thus, leading to a decline in demand.

Statement 3 is correct: Negative events in the economy, such as recession, may cause a **fall in aggregate demand**. A decline in aggregate demand typically results in subsequent lower price and finally deflation if continued over longer period.

Source: https://corporatefinanceinstitute.com/resources/knowledge/economics/deflation/

Q.18) With reference to different Economic Principles, consider the following pairs:

Economic Principles	**Outcome**
1. Law of Diminishing Marginal Utility	With consumption of additional item, the amount of satisfaction produced is increased
2. Law of Diminishing Marginal Rate of Substitution	Consumer can never substitute one commodity for another without changing the level of satisfaction.
3. Law of Diminishing Marginal productivity	Increase in the quantity of one production variable will always increase the output

Which of the pairs given above is/are correctly matched?

a) 1 and 2 only
b) 1 only
c) 2 and 3 only
d) None of the above

Ans) d

Exp) Option d is the correct answer.

Pair 1 is incorrectly matched: The **law of diminishing marginal utility** holds that as **we consume more of an item, the amount of satisfaction produced by each additional unit of that good declines**. The change in utility gained from utilizing an additional unit of a product is known as marginal utility.

Pair 2 is incorrectly matched: Marginal Rate of Substitution is the rate at which consumer can substitute one commodity for another without changing the level of satisfaction. Marginal substitution is diminishing, meaning a **consumer chooses the substitute in place of another good, rather than simultaneously consuming more.** This law states that as a consumer gets more and more unit of a commodity, he will be willing to give up less and fewer units of another commodity so that the level of satisfaction of the consumer remains the same.

Pair 3 is incorrectly matched: The **Law of Diminishing Marginal Product** is an economics concept. It says that, at early stages of production, if we increase 1 production variable and the rest of the things remain the same, the product total production may increase. If, however, we continue to increase the input of that production variable, it will produce lesser returns (on average) per production variable. In simple words, an

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increase in the quantity of 1 production variable will increase the output up to a certain point. After that point, it will give less gain for each unit added. The return on investment goes down.
Source: https://economictimes.indiatimes.com/defaultinterstitial.cms
https://www.investopedia.com/terms/m/marginal_rate_substitution.asp#:~:text=Usually%2C%20marginal%20substitution%20is%20diminishing,which%20is%20the%20indifference%20curve.
https://thebusinessprofessor.com/en_US/economic-analysis-monetary-policy/diminishing-marginal-productivity-definition
Ncert 12th Chapter 3 Production and Cost

Q.19) Which one of the following statements correctly describe the term 'Income Effect' in an economy?
a) It a situation whereby a middle-income economy is failing to transition to a high-income economy.
b) It is the change in quantity supplied due to a change in the market price of the good.
c) It is the change in demand for a good caused by a change in consumer's purchasing power.
d) It the narrowed difference between disposable income and discretionary income.

Ans) c
Exp) Option c is the correct answer.
In microeconomics, income effect is the resultant **change in demand for a good or service** caused by an increase or decrease in a consumer's purchasing power or real income. As one's income grows, the income effect predicts that people will begin to demand more (and vice-versa).
1) The income effect is the change in the consumption of goods by consumers based on their income (purchasing power). The substitution effect happens when consumers replace cheaper items with more expensive ones due to price changes or when their financial conditions improve, and vice-versa.
2) The income effect can be both direct (when it is directly related to a change in income) or indirect (when consumers make buying decisions not directly related to their incomes).
3) When a consumer chooses to make changes to the way they spend because of a change in income, the income effect is said to be direct. For example, a consumer may choose to spend less on clothing because their income has dropped.
4) An income effect becomes indirect when a consumer is faced with making buying choices because of factors not related to their income. For instance, food prices may go up, leaving the consumer with less income to spend on other items. This may force them to cut back on dining out, resulting in an indirect income effect.

Source: https://www.investopedia.com/ask/answers/041415/whats-difference-between-income-effect-and-substitution-effect.asp
NCERT 12th Glossary

Q.20) Consider the following statements regarding 'Northern River Terrapin':
1. It is one of the largest species of riverine turtle native to Southeast Asia.
2. It is one among a few turtles having an herbivorous diet of waterside plants.
3. It is categorised as 'Critically Endangered' on IUCN Red list.
Which of the statements given above is/are correct?
a) 1 and 3 only
b) 3 only
c) 2 and 3 only
d) 1, 2 and 3

Ans) a
Exp) Option a is the correct answer.

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Forest officials had installed GPS transmitters on Northern River Terrapin in Indian Sundarbans. After just six weeks, at least three of these turtles have travelled hundreds of kilometres and are now in Bangladesh.
Statement 1 is correct: Northern River Terrapin (*Batagur baska*) is a species of **riverine turtle** native to Southeast Asia. It is one of **Asia's largest freshwater** and breakwater turtles.

Northern River Terrapin
Statement 2 is *incorrect*: Northern River Terrapin have an **omnivorous diet,** taking waterside plants and **small animals such as clams.** They spend most of their time in water and only come on land to lay eggs. They are even known to undertake long seasonal migrations to the sandbanks where they were hatched.
Statement 3 is correct: Northern River Terrapin are categorised as '**Critically Endangered'** on IUCN Red list. **Other protection includes CITES**: Appendix I and **Wildlife (Protection) Act, 1972**: Schedule I.
Source: Northern River Terrapin: Endangered turtles play fast and loose with borders -ForumIAS Blog

Q.21) Which among the following steps is most likely to be taken at the time of an economic recession?
a) Cut in tax rates accompanied by increase in interest rate
b) Increase in expenditure on public project
c) Increase in tax rates accompanied by reduction of interest rate
d) Reduction of expenditure on public projects

Ans) b
Exp) Option b is the correct answer.
Economic Recession refers **to a significant decline in general economic activity in a designated region**. Increase in expenditure on public projects will have a **multiplier effect** on the pace of economic growth of the country. Public expenditure has the expansionary effect on the growth of national income, employment opportunities, etc.
Private investors are incapable of making massive investments on the various infrastructural projects like road-bridge-dam construction, power plants, transport and communications, etc. It is imperative that the government undertakes such projects. **Greater the public expenditure, higher is the level of economic development.**
Source) UPSC CSE Pre 2021

Q.22) Consider the following statements with regards to the Land Reforms in India:
1. The First Five-Year Plan included the policies of land reforms.
2. The abolition of the zamindari system was an important aspect of the land reforms.
3. Tenancy laws were uniformly implemented throughout India.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) 1 and 2 only
d) 1 and 3 only

Ans) c

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Exp) Option c is the correct answer.

Land reform is a **form of agrarian reform involving the changing of laws, regulations, or customs regarding land ownership**. Land reform may consist of a government-initiated or government-backed property redistribution, generally of agricultural land.

Statement 1 is correct: Land reform policy was spelled out in the First Five-Year Plan. The plan aimed to reduce disparities in income and wealth, eliminate exploitation, and provide security to tenants, as well as achieve social transformation through equality of status and an opportunity for different sections of the population to participate in development initiatives.

Statement 2 is correct: From the 1950s to the 1970s, a series of land reform laws were passed – at the national level as well as in the states. The **first important legislation was the abolition of the zamindari system,** which removed the layer of intermediaries who stood between the cultivators and the state. Of all the land reform laws that were passed, this was probably the most effective. In most areas it succeeded in taking away the superior rights of the zamindars over the land and weakening their economic and political power.

Statement 3 is incorrect: Because land is subject to state control in India and the relationship between production and land tenure varies from state to state, the **national policy recommendations resulted in differing tenancy reform laws in each state**.

T**enancy is completely prohibited in some states but completely free in others.** Punjab and Haryana have not prohibited tenancy whereas Karnataka has a near complete ban on tenancy. Some states have conferred ownership rights on tenant cultivators except for sharecroppers, whereas West Bengal chose to provide owner-like rights only to the sharecroppers. Some states, such as Maharashtra and Orissa, chose to provide different tenancy reform regimes for different areas within the state.

Source: https://egyankosh.ac.in/handle/123456789/31754

https://ncert.nic.in/textbook/pdf/lesy204.pdf

Q.23) Consider the following statements with reference to Economic Growth and Economic Development:

1. Unlike Economic Growth, Economic Development does not require changes in income, savings and investments in an economy.
2. Increase in government spending can foster Economic Growth while reduction in income inequality may indicate Economic Development.
3. Unlike Economic Growth, Economic Development is measured by quantitative factors such as increase in real GDP.

Which of the above given statements is/are correct?

a) 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) a

Exp) Option a is the correct answer.

Even though the terms economic development and economic growth sound similar, there is a significant difference between the two.

Statement 1 is incorrect: Economic growth refers to an increase in the real output of goods and services in the country. In other words, the increase should be in terms of increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.

Economic development implies changes in income, savings and investment along with progressive changes in socioeconomic structure of country (institutional and technological changes).

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Economic development is defined as a sustained improvement in material well-being of society. Economic development is a wider concept than economic growth.

Statement 2 is correct:

Economic Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, **government spending**, investment, net exports.

Economic Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population.

Statement 3 is incorrect:

Economic Growth is measured by **quantitative factors such as increase in real GDP or per capita income.** The qualitative measures such as HDI (Human Development Index), gender- related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development

Source:

https://nios.ac.in/media/documents/SrSec318NEW/318_Economics_Eng/318_Economics_Eng_Lesson3.pdf

Q.24) Which of the following statements are correct regarding the causes for stagnation of Indian agricultural sector during colonial period?

1. Exploitative land revenue settlements had impoverished the peasantry
2. Large scale Commercialisation of agriculture leading to shortage of food crops
3. Lack of irrigation facilities negatively impacting the overall production
4. Low levels of technology, resulting in poor agricultural productivity

Select the correct answer using the code given below:

a) 1 and 4 only
b) 1, 2 and 3 only
c) 1, 3 and 4 only
d) 1, 2, 3 and 4

Ans) c

Exp) Option c is the correct answer.

Statement 1 is correct. The **stagnation in the agricultural sector** during colonial period was caused mainly because of the various systems of **land settlement** that were introduced by the colonial government particularly, under the **zamindari system**. The main interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators; this caused immense misery and social tension among the latter.

Statement 3 and 4 are correct. Besides this, **low levels of technology, lack of irrigation facilities** and negligible use of fertilisers, all added up to aggravate the plight of the farmers and contributed to the **dismal level of agricultural productivity.**

Statement 2 is incorrect. There was, of course, some evidence of a relatively higher yield of cash crops in certain areas of the country due to **commercialisation of agriculture. But there was no large-scale commercialisation of agriculture and thus could not be attributed as a reason behind the stagnation of the Indian agriculture sector during the colonial period.**

Despite some progress made in irrigation, India's agriculture was **starved of investment** in terracing, flood-control, drainage and desalinisation of soil. While a small section of farmers changed their cropping pattern from food crops to commercial crops, a large section of tenants, small farmers and sharecroppers neither had resources and technology nor had incentive to invest in agriculture.

Source: Indian Economic Development' Class 11-NCERT

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Q.25) Consider the following pairs with reference to various International Conventions and their subject matter:

International Conventions	***Subject matter***
1. Third Geneva Convention (2005)	Treatment of Prisoners of War
2. New York Convention (1958)	Protection of Civilian Persons in Time of War
3. Vienna Convention (1961)	Diplomatic relations between independent countries.
4. Basel Convention (1992)	Reducing Greenhouse gas and Climate change

How many pairs given above is/are correctly matched?
a) One pair only
b) Two pairs only
c) Three pairs only
d) All four pairs

Ans) b

Exp) Option b is the correct answer.

This question is based on the article **"What are the Geneva Conventions guidelines during wartime?".** As the Russian-Ukraine Conflict gets intense, there is growing concern surrounding the issue of violations of human rights and Geneva Conventions**.** The above given international conventions are often seen in news and it therefore becomes important from exam point of view**.**

Pair 1 is correctly matched: The **Geneva Conventions (1949)** and their Additional Protocols are international treaties that contain the most important rules limiting the barbarity of war. The convention contains four treaties, formalized in 1949 and three additional protocols, the first two of which were formalized in 1977 and the third in 2005.

1) The first Geneva Convention protects wounded and sick soldiers on land during the war.
2) The second Geneva Convention protects wounded, sick and shipwrecked military personnel at sea during the war.
3) The **third Geneva Convention applies to prisoners of war**.
4) The fourth Geneva Convention affords protection to civilians, including in occupied territory.

Pair 2 is incorrectly matched: The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, commonly known as the **New York Convention**, was adopted by a United Nations diplomatic conference on 10 June 1958 and entered into force on 7 June 1959. It is the **foundational instrument for international arbitration**, it applies to arbitrations that are not considered as domestic awards in the state where recognition and enforcement is sought. The Convention requires courts of contracting states to give effect to private agreements to arbitrate and to recognize and enforce arbitration awards made in other contracting states.

Pair 3 is correctly matched: The **Vienna Convention on Diplomatic Relations of 1961** is an international treaty that defines a **framework for diplomatic relations between independent countries**. Its aim is to facilitate "the development of friendly relations" among governments through a uniform set of practices and principles; most notably, it codifies the longstanding custom of diplomatic immunity, in which

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diplomatic missions are granted privileges that enable diplomats to perform their functions without fear of coercion or harassment by the host country.

Pair 4 is incorrectly matched: The **Basel Convention (1992**) on the **Control of Transboundary Movements of Hazardous Wastes and Their Disposal,** usually known as the Basel Convention, is an international treaty that was designed to red**uce the movements of hazardous waste between nations, and specifically to prevent transfer of hazardous waste** from developed to less developed countries (LDCs).

Source: What are the Geneva Conventions guidelines during wartime? -ForumIAS Blog
International Conventions and Organizations -ForumIAS Blog
https://blog.forumias.com/new-york-convention-of-1963/
https://blog.forumias.com/international-conventions-and-organizations/

Q.26) The concept of 'Invisible hand' in relation to an economy entails which of the following?

a) An unobservable market force that helps the demand and supply of goods to reach equilibrium automatically.
b) Unregistered firms in a market which destabilise the market equilibrium by their distortive price policies.
c) Invisible role of Government in controlling the production of goods to maintain the market equilibrium.
d) Distortions in the demand-supply curve in a market due to hoarding and black-marketing of goods.

Ans) a

Exp) Option a is the correct answer.

The **Invisible Hand** is a metaphor for the unseen forces that move the free market economy, where self-interested individuals operate through a system of mutual interdependence.

Definition: The unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically is the invisible hand.

The phrase invisible hand was introduced by Adam Smith in his book 'The Wealth of Nations'. He assumed that an economy can work well in a free-market scenario where everyone will work for his/her own interest.

In a free-market scenario where there are no regulations or restrictions imposed by the government, if someone charges less, the customer will buy from him. Therefore, you have to lower your price or offer something better than your competitor. Whenever enough people demand something, it will be supplied by the market and everyone will be happy. The seller ends up getting the price and the buyer will get better goods at the desired price.

Source: Introductory Microeconomics' Class 11-NCERT

Q.27) With reference to the New Strategic Disinvestment Policy of Central Public Sector Enterprises (CPSEs), consider the following statements:

1. The Department of Investment and Public Asset Management is the nodal department for the Strategic disinvestment.
2. Strategic disinvestment in CPSEs includes the transfer of management control to a private entity.
3. The Banking sector is recognized as a strategic sector under this policy.

Which of the statements given above is/are correct?

a) 2 only
b) 3 only
c) 1 and 2 only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

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Divestment or disinvestment means selling a stake in a company, subsidiary or other investments. Businesses and governments resort to divestment generally as a way to pare losses from a non-performing asset, exit a particular industry, or raise money.

Statement 1 is correct: Strategic disinvestment is transferring the ownership and control of a public sector entity to some other entity (mostly to a private sector entity). Unlike the simple disinvestment, strategic sale implies some sort of privatization. The **Union Cabinet has approved a new process of strategic disinvestment with a view to expediting privatization of select PSUs**. Under the new policy, the **Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance has been made the nodal department** for the strategic stake sale.

DIPAM and NITI Aayog will jointly identify PSUs for strategic disinvestment. The decision has been taken with a view to streamlining and speeding up the process.

Statement 2 is correct: Strategic disinvestment is defined as the **sale of substantial portion of Government shareholding in identified CPSEs up to 50 per cent or more, along with transfer of management control.**

Statement 3 is correct: The **government has decided that bare minimum presence of the public sector enterprises would be there which are considered strategic**. And remaining will be either privatized or merged or subsidiarized with other CPSEs or closed. The 4 sectors that come under it are **Atomic energy, Space and Defense; Transport and Telecommunications; Power, Petroleum, Coal and other minerals; and Banking, Insurance and financial services**.

Source: https://dipam.gov.in/strategic-disinvestment
https://pib.gov.in/PressReleasePage.aspx?PRID=1693899

Q.28) Consider the following statements:
1. The Lorenz curve represents the wealth distribution of the nation.
2. The Gini Coefficient of India has increased in the past decade.
3. The Gini Coefficient can be represented graphically through the Lorenz curve.
Which of the above statements is/are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

Many graphical representations of distribution of resources aid in understanding the economy in better manner.

Statement 1 is correct: The **Lorenz curve is the graphical representation of wealth distribution** developed by American economist Max Lorenz in 1905. On the graph, a **straight diagonal line represents perfect equality of wealth distribution; the Lorenz curve lies beneath it, showing the reality of wealth distribution.**

Statement 2 is correct: The Gini (inequality in income distribution) coefficient points to an increasing inequality in India. The coefficient increased to 35.7 per cent in 2011 and to 47.9 per cent in 2018.

Statement 3 is correct: T**he Gini index is often represented graphically through the Lorenz curve**, which shows income (or wealth) distribution by plotting the population percentile by income on the horizontal axis and cumulative income on the vertical axis. The Gini co-efficient is equal to the area below the line of perfect equality minus the area below the Lorenz curve, divided by the area below the line of perfect equality.

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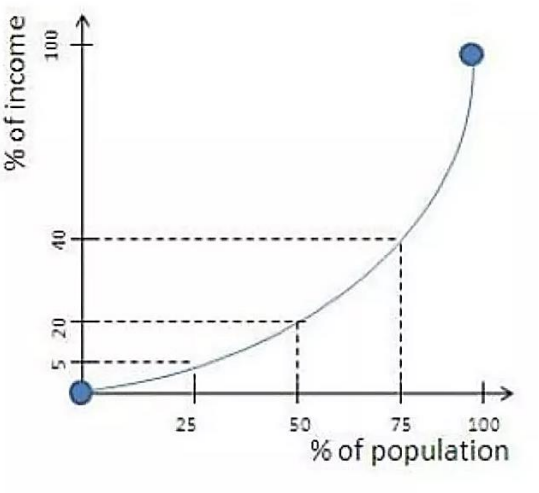
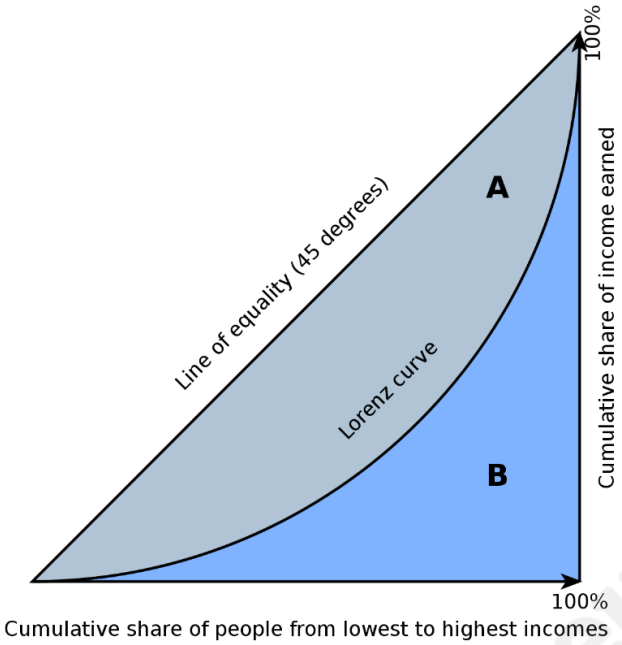


Knowledge Base:



Source: https://www.investopedia.com/terms/l/lorenz-curve.asp
https://ncert.nic.in/textbook/pdf/kest106.pdf

Q.29) Which of the following can be considered as factors responsible for Balance of Payment crisis faced by India in 1991?
1. The Gulf War
2. Rising Fiscal Deficit
3. Huge drop in foreign exchange reserves
4. Consistent rise in the general price level of goods
5. "The Great Recession" around the world economy
Select the correct answer using the code given below:
a) 2 and 5 only
b) 1, 2 and 3 only
c) 1, 2, 3 and 4 only
d) 1, 2, 3, 4 and 5

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Ans) c

Exp) Option c is the correct answer.

Economic reforms refer to the fundamental changes that were launched in 1991 with the plan of liberalising the economy and quickening its rate of economic growth. The Narasimha Rao Government, in 1991, started the economic reforms in order to rebuild internal and external faith in the Indian economy.

Option 1 and 2 are correct: Gulf War was a conflict between Iraq and 34 other countries, led by the United States. It started with the invasion of Kuwait. This affected oil prices. India's **oil import bill swelled**, exports slumped, credit dried up, and investors took their money out. **Large fiscal deficits, over time, had a spillover effect on the trade deficit** culminating in an external payments crisis. By the end of the 1980s, India was in serious economic trouble. The Government Expenditure was more than the earnings. Hence the Fiscal Deficit was high. The **Gross Fiscal deficit rose from 9 % of GDP in 1980-81 to 12.7 % of GDP in 1990-91**. The Internal Debt of the Government rose due to the above reason. It rose from 35 % of GDP in 1985-86 to 53 % of GDP in 1990-91.

Option 3 and 4 are correct: Before **economic reforms occurred, imports grew at a very high rate without matching the growth of exports**. Government **could not restrict imports even after imposing heavy tariffs and fixing quotas**. This had **resulted in huge balance of payment of crisis**. Added to that, **there was a consistent rise in the general price level of essential goods in the economy**.

By **June 1991, India had less than $1 billion in foreign exchange reserves,** bar barely enough to cover imports for three weeks. India lacked sufficient foreign exchange reserves to conduct international trade and was about to default on its international debt obligations. Investors withdrew their funds. By June 1991, India had less than $1 billion in foreign exchange reserves, barely enough to cover imports for three weeks. India lacked sufficient foreign exchange reserves to conduct international trade and was about to default on its international debt obligations. The average rate of inflation was 7.5 percent in 1989-90, which went up to 10 percent in the year 1990-91. In 1991-92, it crossed 13 percent.

Option 5 is incorrect: The Global Financial Crisis of 2008-2009 is widely referred to as "The Great Recession."

The Global Financial Crisis of 2008-2009 refers to the massive financial crisis the world faced from 2008 to 2009. It began with the housing market bubble, created by an overwhelming load of mortgage-backed securities that bundled high-risk loans.

Source: https://ncert.nic.in/ncerts/l/keec103.pdf
https://www.imf.org/external/pubs/ft/wp/2004/wp0443.pdf
https://frontline.thehindu.com/economy/india-at-75-epochal-moments-1991-economic-reforms/article65726078.ece

Q.30) Consider the following statements regarding 'Facility for Low Carbon Technology Deployment Project':

1. The project was launched by United Nations Industrial Development Organisation.
2. Under the project, annual innovation challenges are conducted with an opportunity to win financial assistance.
3. The project is funded by World Bank in collaboration with Government of India and Japan.

Which of the statements given above is/are correct?

a) 1 and 2 only
b) 2 and 3 only
c) 3 only
d) 1, 2 and 3

Ans) a

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Exp) Option a is the correct answer.

This question is based on the article **"BEE observes its 20th foundation day with the National Innovation Conclave on Low Carbon Technologies".**

Statement 1 is correct: The Facility for Low Carbon Technology Deployment (FLCTD) Project was launched in **2016 by United Nations Industrial Development Organisation (UNIDO) in collaboration with the Bureau of Energy Efficiency (BEE).** It aims to identify innovative energy efficiency and low carbon technology solutions that address the existing technology gaps in the Indian industrial and commercial sectors.]

Statement 2 is correct: Under the Project, **annual innovation challenges** are conducted in the following **six areas**: Waste Heat Recovery, Space Conditioning, Pumps, Pumping Systems and Motors, Industrial IoT, Industrial Resource Efficiency and Electrical Energy Storage.

The winners of the challenge receive financial assistance of up to US$50,000 to validate their innovation and demonstrate its efficacy (performance) in actual field conditions – a necessary step before commercialization.

Statement 3 is *incorrect*: The project is being funded by Global Environment Facility (GEF) and not by World Bank. **Global Environment Facility (GEF)** was established on the eve of the 1992 Rio Earth Summit to help tackle our planet's most pressing environmental problems.

An **independently operating financial organization**, the GEF provides grants for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, persistent organic pollutants (POPs), mercury, sustainable forest management, food security, sustainable cities.

Source: FLCTD Project: BEE observes its 20th foundation day with the National Innovation Conclave on Low Carbon Technologies -ForumIAS Blog

FLCTD (low-carbon-innovation.org)

Q.31) With reference to the funds under Members of Parliament Local Area Development Scheme (MPLADS), which of the following statements are correct?

1. MPLADS funds must be used to create durable assets like physical infrastructure for health, education etc.
2. A specified portion of each MP's fund must benefit SC/ST populations.
3. MPLADS funds are sanctioned on yearly basis and the unused funds cannot be carried forward to the next year.
4. The district authority must inspect at least 10% of all works under implementation every year.

Select the correct answer using the code given below:

a) 1 and 2 only
b) 3 and 4 only
c) 1, 2 and 3 only
d) 1, 2 and 4 only

Ans) d

Exp) Option d is the correct answer.

Statements 1 is correct. The Members of Parliament Local Area Development Scheme (MPLADS) is an ongoing Central Sector Scheme which was launched in 1993-94. The Scheme enables the Members of Parliament to **recommend works for creation of durable community assets** based on locally felt needs to be taken up in their constituencies in the area of national priorities namely drinking water, education, public health, sanitation, roads etc.

All works to meet locally felt infrastructure and development needs, with an emphasis on creation of durable assets in the constituency are permissible under MPLADS as prescribed in the scheme guidelines.

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The Ministry of Statistics and Programme Implementation has been responsible for the policy formulation, release of funds and prescribing monitoring mechanism for implementation of the Scheme.

Statements 2 is correct. MPs are to recommend every year, **works costing at least 15 per cent of the MPLADS entitlement for the year for areas inhabited by Scheduled Caste population and 7.5 per cent for areas inhabited by S.T. population.**

Statements 3 is incorrect. The funds under MPLADS are non-lapsable. Thus, funds are not relapsed if unused in a year but is carried forward to the next year.

Statements 4 is correct. The District Authority would be responsible for overall coordination and supervision of the works under the scheme at the district level and **inspect at least 10% of the works under implementation every year.** The District Authority should involve the MPs in the inspections of projects to the extent feasible.

Source) UPSC CSE Prelims 2020

Q.32) Which one of the following statements is most closely related to the Amartya Sen's idea of development?

a) It emphasises on provisioning of basic needs for all.
b) It links the human development to income levels in the society.
c) It sees human beings as beneficiaries of all development activities.
d) It emphasizes on expanding freedom to improve human development.

Ans) d

Exp) Option d is the correct answer.

Option a is incorrect: Basic Needs approach of human development was initially proposed by the International Labour Organisation (ILO). It identified six basic needs i.e.: health, education, food, water supply, sanitation, and housing. It ignored the question of human choices.

Option b is incorrect: Income approach links the human development to income. The idea is that the level of income reflects the level of freedom an individual enjoys.

Option c is incorrect: Welfare approach of human development sees human beings as beneficiaries or targets of all development activities. People are treated as passive recipients. It is the responsibility of the government for increasing levels of human development by maximising expenditure on education, health, social secondary and amenities.

Option d is correct: Amartya Sen's idea of development is based on Capability approach. According to him, **development is the process of expanding human freedom**. He advocated building human capabilities in the areas of health, education and access to resources that is the key to increasing human development.

Source: https://ncert.nic.in/ncerts/l/legy104.pdf

Q.33) You often hear the terms 'recession' and 'depression' in relation to movement of economies around the globe. In this context, how would you differentiate between recession and depression?

1. While demand may or may not decrease during a recession, there is always a general fall in total demand during a depression.
2. While the inflation rate decreases during a recession, depression is characterized by higher inflation.
3. Unlike recession, depression is characterized by a fall in the employment rate.
4. Depression typically lasts for longer time than recession.

Select the correct answer using the code given below:

a) 1, 2 and 3 only
b) 3 and 4 only
c) 4 only
d) 1, 2 and 4 only

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Ans) c

Exp) Option c is the correct answer.

An economic recession is often defined as a decline of real gross domestic product (GDP) for **two consecutive quarters.** On the contrary, an economic depression is typically understood as an extreme downturn in economic activity **lasting several years.** A depression is a more severe recession.

Statement 1 is incorrect: There is a **general fall in demand** as economic activities takes a downturn **during recession.** Thus, there is no increase in demand even at a decreasing rate. Similarly, during depression, an extremely low aggregate demand in the economy causes activities to decelerate.

Statement 2 is incorrect: Inflation remains lower or/and shows further signs of falling down during recession. The inflation is **comparatively much lower during the times of depression.**

Statement 3 is incorrect: Employment rate falls/unemployment rate grows during both recession and depression. The employment avenues start shrinking forcing unemployment rate to grow fast during these times.

Statement 4 is correct: Depressions tend to be much more severe and **they tend to last for a much longer period of time than recession.**

Source: https://www.businesstoday.in/magazine/trends/story/slowdown-vs-recession-vs-depression-127939-2008-11-13

Indian Economy, Ramesh Singh, Chapter-7, Inflation and Business Cycles

Q.34) With reference to the Special Data Dissemination Standard (SDDS) of the International Monetary Fund, consider the following statements:

1. It was established for the member countries as a framework for providing their economic and financial data to the public.
2. India has subscribed to the Special Data Dissemination Standard.
3. The SDDS Plus is open only to the economies with systemically important financial sectors.

Which of the statements given above are correct?

a) 1 and 2 only
b) 2 and 3 only
c) 1 only
d) 1, 2 and 3

Ans) a

Exp) Option a is the correct answer.

Under the Special Data Dissemination Standards (SDDS) of the International Monetary Fund (IMF), central banks undertake the responsibility of disseminating information under certain data categories, such as, analytical accounts of the banking sector, analytical accounts of the central bank, balance of payments, international reserves and exchange rates. The IMF requires that these data should be available at regular intervals in public domain.

Statement 1 is correct: The **Special Data Dissemination Standard (SDDS) was established** in 1996 to guide members that have/seek a**ccess to international capital markets** in the provision of their economic and financial data to the public.

Statement 2 is correct: India had subscribed to the IMF's Special Data Dissemination Standard in 1996. More than 95 percent of IMF member countries participate in the e-GDDS, SDDS, or SDDS Plus. The Reserve Bank of India is one of the earliest central bank signatories of SDDS.

Statement 3 is incorrect: In 2012, the **Special Data Dissemination Standard (SDDS) Plus** was created as an upper tier of the IMF's Data Standards Initiatives to help address data gaps identified during the global financial crisis. **The SDDS Plus is open to all SDDS subscribers, although it is principally aimed at**

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economies with systemically important financial sectors. In addition to the requirements under the SDDS, the SDDS Plus emphasizes more ambitious data dissemination practices to enhance data transparency and help strengthen the international financial system.
Knowledge Base:
The **General Data Dissemination System** (GDDS) was established in 1997 for member countries with less developed statistical systems as a **framework for evaluating their needs for data improvement and setting priorities.**
Both the General Data Dissemination System (GDDS) and the SDDS are expected to enhance the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies; the SDDS is also expected to contribute to the improved functioning of financial markets.
Source: https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/45/Standards-for-Data-Dissemination
https://rbi.org.in/Scripts/SDDSview.aspx

Q.35) With reference to Sagar Parikrama, consider the following statements:
1. It is a programme launched by Ministry of Defense in collaboration with costal state governments.
2. It will conduct the navigation journey in all the coastal states to demonstrate solidarity with all fisherfolk in the country.
3. The initiative has been launched as a part of Atmanirbhar Bharat Programme of making India self-sufficient.
Which of the statements given above is/are correct?
a) 1 and 2 only
b) 2 only
c) 2 and 3 only
d) 3 only

Ans) b
Exp) Option b is the correct answer.
Oceans are vital to the economies, security and livelihoods of Indian coastal states. India has a coastline of 8118 km covering 9 maritime States/4 UTs and providing livelihood support to millions of coastal fisherfolk.
Statement 1 is *incorrect*: Sagar Parikrama is launched by **Ministry of Fisheries, National Fisheries Development Board** along with Government of Gujarat, Indian Coast Guard, Fishery Survey of India and Gujarat Maritime Board.
Statement 2 is correct: Sagar Parikrama is a **navigation journey** to be conducted in all coastal states/UTs through a pre-decided sea route to demonstrate solidarity with all fisherfolk, fish farmers and concerned stakeholders.
Statement 3 is *incorrect*: Sagar Parikrama initiative has been launched as a part of '**Azadi Ka Amrit Mahotsava'** and not as a part of Atmanirbhar Bharat. Azadi Ka Amrit Mahotsava is one of the significant initiatives of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements.
Source: Union Minister for Fisheries, Animal Husbandry and Dairying inaugurates the 'Sagar Parikrama'- ForumIAS Blog

Q.36) Suppose the Gross Domestic Product (GDP) of a country is increasing constantly. In such a scenario, which of the following is definitely true?
1. The quality and standard of life is increasing within the middle class and lower class in the same proportion.
2. The income inequality is decreasing in the country.

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3. The volume of goods and services produced within the country is increasing
4. The unemployment rate is declining in the country.
Select the correct answer from the code given below:
a) 1 and 2 only
b) 3 only
c) 2, 3 and 4 only
d) None

Ans) d
Exp) Option d is the correct answer.
Gross domestic product, or GDP, measures the total output of the economy, including activity, stability, and growth of goods and services; as such, it's seen as a proxy for the economy.
Statement 1 is incorrect: Economic growth and economic development may mean that the quality of life increases faster within the **middle class than within the lower class. The lower class may not gain in the same proportion as individuals who are placed in higher income groups.**
Statement 2 is incorrect: The **rising GDP may or may not lead to decline in inequality** depending upon the distribution of the income.
Statement 3 is incorrect: Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's border**s. Sometimes it may happen that the increase in GDP is not due to increase in volume of goods and services produced but merely due to increase in inflation. Due to inflation, GDP increases and does not actually reflect the true growth in an economy.**
Statement 4 is incorrect: GDP and unemployment rates usually go together because a decrease in the GDP is reflected in a decrease in the rate of employment. A rise in employment levels is a natural result of increased GDP levels caused by an increase in consumer demands for goods and services. But we have seen instances of **jobless growth** in India (**constant unemployment despite rising GDP).**
Source: https://www.investopedia.com/articles/economics/10/jobless-growth-economy.asp
https://www.investopedia.com/ask/answers/060115/how-does-gross-domestic-product-gdp-affect-standard-living.asp#:~:text=Gross%20domestic%20product%2C%20or%20GDP,people%20living%20in%20the%20country.

Q.37) Which of the following are the correct impacts of the economic policies pursued by the colonial government in India?
1. Commercialization of agriculture led to the emergence of the capitalist landowner in India.
2. De-industrialization of textiles sector in India.
3. One-way free trade regime in India led to ruralisation of the population.
Select the correct answer from the code given below:
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Ans) b
Exp) Option b is the correct answer.
Britain's relationship with her Indian colony was one of political subordination, but economic exploitation formed the core of this relationship. This process of colonization was geared clearly to benefit the mother country, even at the cost of the colony.

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Statement 1 is incorrect: Commercialisation of agriculture led to differentiation within the agricultural sector, but **did not create the figure of the 'capitalist landowner'** as in Britain. The **lack of any simultaneous large scale industrial development** meant that accumulated agrarian capital had no viable channels of investment, for it to be converted into industrial capital. Commercialization increased the level of sub-infeudation in the countryside and money was channelised into trade and usury.

Statement 2 is correct: With the coming of industrialisation in England, there was a massive import of machine made clothes from English factories to Indian markets. This import of large amount of products manufactured by mechanical looms in England led to increase threat for the handicraft industries as the British goods were sold at a much cheaper price. This made a huge impact on the Indian handloom weaving industry leading to its virtual collapse. **This process of uneven competition faced by the Indian handloom industry was later dubbed by the Indian nationalist leaders as de-industrialisation.**

The **drain of wealth** checked and retarded capital formation in India while the same portion of wealth **accelerated the growth of British economy**. The surplus from British economy re-entered India as finance capital, further draining India of its wealth. This had immense effect on income and employment potential within India.

Statement 3 is correct: The British enforced a **one way free trade**, whereby the entry of Indian commodities in British markets was restricted by high custom duties. In turn, the Industrial Revolution in Europe enabled the mass production of cheap machine-made goods, which flooded Indian markets. Unable to compete with this, Indian commodities lost both their overseas and domestic markets. This destructive process led to **deindustrialisation** that in turn led to the decline of many cities and a process of **ruralisation of India**. Many artisans, faced with diminishing returns and repressive policies abandoned their professions, moved to villages and took to agriculture.

Knowledge Base:

The major components of this drain were salaries and pensions of civil and military officials, interests on loans taken by the Indian Government from abroad, profits on foreign investment in India, stores purchased in Britain for civil and military departments, payments to be made for shipping, banking and insurance services which stunted the growth of Indian enterprise in these services.

Source:

https://nios.ac.in/media/documents/SrSec315NEW/315_History_Eng/315_History_Eng_Lesson17.pdf

Q.38) Consider the following statements with reference to the foreign trade in India during the British Rule:

1. India never had a trade surplus under the British rule.
2. Increase in exports from India led to flow of huge volume of silver and gold into India.
3. About half of the total foreign trade from India was done with Britain only.

Which of the above given statements is/are correct?

a) 1 and 3 only
b) 2 and 3 only
c) 3 only
d) 1 and 2 only

Ans) c

Exp) Option c is the correct answer.

Before the colonial period, India was a big player in the foreign trade. Having established itself well on the world map, pre-colonial India was blooming with opportunities. **At the beginning of 19th century, the share of India in the world economy was around 20%. But by the time British left India, the share was reduced to around 4%.**

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Statement 1 is incorrect and Statement 2 is incorrect: Foreign trade of India during the colonial period **generated a surplus due to excess exports. However, this surplus export did not flow any silver or gold into India.** Rather, this surplus export was utilized to make payments for:
(1) The costs made for the office set up by the colonial government in Britain
(2) Expenses on the war fought by the British government
(3) Import of invisible items etc.
All of this led to the drain of Indian wealth.
Statement 3 is correct: Britain retained its monopoly control and ruled over India's imports and exports. **Half of India's foreign trade was only authorized to Britain. And the rest half was allowed to trade with only handful of other countries** like Ceylon (Sri Lanka), China, and Persia (Iran).
Source:
https://nios.ac.in/media/documents/SrSec315NEW/315_History_Eng/315_History_Eng_Lesson17.pdf
http://www.rncollegehajipur.in/rn/uploads/products/Foreign%20Trade%20During%20Colonial%20Rule.pdf

Q.39) Consider the following pairs:

Schemes	Features
1. One Nation, One Ration Card	Successfully expanded to all the 36 states/UTs in India recently
2. PM SVANidhi	Provides collateral free working capital loans to street vendors
3. Pradhan Mantri Kaushal Vikas Yojana	Recognition of Prior Learning is one its component

How many of the above pairs are correctly matched?
a) Only one pair
b) Only two pairs
c) All three pairs
d) None of the pairs

Ans) c
Exp) Option c is the correct answer.
Pair 1 is correct. Assam has become the 36th State/UT to implement One Nation One Ration Card (ONORC). With this, the ONORC plan is successfully implemented in all the 36 states/UTs, making food security portable throughout the country.
The 'One Nation, One Ration Card' is a tech-driven system that ensures hassle-free delivery of subsidized food grains to all beneficiaries anywhere in the country. It provides a nation-wide portability of ration cards under National Food Security Act (NFSA)
Pair 2 is correct. Ministry of Housing & Urban Affairs launched a scheme PM Street Vendor's AtmaNirbhar Nidhi (**PM SVANidhi**) to empower Street Vendors. The scheme extends loans to them for their holistic development and economic upliftment. The scheme intends to facilitate **collateral free working capital loans of up to INR10,000/- of one-year tenure**, to approximately 50 lakh street vendors. It helps to resume their businesses in the urban areas, including surrounding peri-urban/rural areas.

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Pair 3 is correct. Recognition of Prior Learning (RPL) is a component of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) Scheme in which individuals with prior learning experience or skills are assessed and certified. Skill India Mission was launched and under its flagship scheme, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), **Recognition of Prior Learning (RPL) programme** was launched with a focus on re-skilling and up-skilling in prominent trades. The Skill India Mission covers short-term training, long term training, apprenticeship training of industry, skill development and entrepreneurship, as well as some of the skill programmes of other Union Ministries too.
Source: https://www.pib.gov.in/PressReleasePage.aspx?PRID=1814641

Q.40) Consider the following statements regarding 'Swatantrata Sainik Samman Yojana':
1. The scheme provides a one-time monetary felicitation to freedom fighters for their contribution in the national freedom struggle.
2. The Ministry of Statistics and Programme Implementation is the nodal ministry for the yojana.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) d
Exp) Option d is the correct answer.
The government has recently approved the continuation of the Swatantrata Sainik Samman Yojana (SSSY) till 2025-26.
Statement 1 is *incorrect*: Swatantrata Sainik Samman Yojana (SSSY) aims to provide a **monthly Samman Pension (not one-time monetary felicitation) to freedom fighters,** as a token of respect for their contribution in the national freedom struggle and on their demise to their eligible dependents viz. spouses and thereafter, unmarried and unemployed daughters and dependent parents.
Statement 2 is *incorrect*: Ministry of Home Affairs is the nodal agency for the scheme. In 1972, to commemorate the 25th Anniversary of Independence, a regular scheme for grant of freedom fighters' pension was introduced. Thereafter, in 1980, a scheme by the name '*Swatantrata Sainik Samman Pension Scheme* was implemented. From 2017-18 onwards, the nomenclature of the Scheme has been changed to '*Swatantrata Sainik Samman Yojana*'.
Source: Government has approved continuation of Swatantrata Sainik Samman Yojana(SSSY) -ForumIAS Blog

Q.41) With reference to India's Five -Year Plans, which of the following statements is/are correct?
1. From the Second Five -Year Plan, there was a determined thrust towards substitution of basic and capital good industries.
2. The Fourth Five -Year Plan adopted the objective of correcting the earlier trend of increased concentration of wealth and economic power.
3. In the Fifth Five -Year Plan, for the first time, the financial sector was included as an integral part of the Plan.
Select the correct answer using the code given below:
a) 1 and 2 only
b) 2 only
c) 3 only
d) 1, 2 and 3

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Ans) a

Exp) Option a is the correct answer.

Statement 1 is correct. From the Second Five -Year Plan, there was a determined thrust towards substitution of basic and capital good industries. India adopted the strategy of Import Substitution Industrialization (ISI) with the objective to build a self -reliant economy.

Statement 2 is correct. The Fourth Five -Year Plan adopted the objective of correcting the earlier trend of increased concentration of wealth and economic power. The Plan now aimed to assist the less prosperous sections of agriculture to improve their position and make a yet bigger contribution to the national economy.

Statement 3 is incorrect. For the first time in Indian planning, Financial sector became an integral part of the plan in the Ninth Five – Year Plan.

Source) UPSC CSE Pre 2019

Q.42) Which of the following shows the deglobalisation trends around the world?

1. Brexit (United Kingdom's departure from the European Union)
2. Disruptions in global supply chains after COVID-19 pandemic
3. Huge decline in Global foreign direct investment flows in 2021
4. Russia-Ukraine war
5. Climate change

Select the correct answer from the code given below:

a) 1, 4 and 5 only
b) 2, 3 and 5 only
c) 1, 2 and 4 only
d) 1, 2, 3, 4 and 5

Ans) c

Exp) Option c is the correct answer.

Deglobalization or deglobalisation is the process of diminishing interdependence and integration between certain units around the world, typically nation-states. It is widely used to describe the periods of history when economic trade and investment between countries decline.

Option 1 is correct. Brexit is the name given to the United Kingdom's departure from the European Union. **It is a combination of Britain and exit.**

Brexit shows up the failures of globalisation**. Brexit is a unique example of deglobalisation** that will hurt Britain's economy as trade ties with the EU are weakened.

Option 2 is correct.

The COVID-19 pandemic blocked the **world economy to retreat from global economic integration**. World trade was declined. The pandemic has reinforced concerns around the world that supply chains have gone too far. Export bans have been imposed over concerns about inadequate domestic production of medical equipment, personal protective equipment, and pharmaceuticals. **Protectionism and Vaccine nationalism** was witnessed around countries.

Option 3 is incorrect.

Global foreign direct investment (FDI) flows showed a strong rebound in 2021, up 77% to an estimated $1.65 trillion, from $929 billion in 2020, surpassing their pre-COVID-19 level, according to UNCTAD's Investment Trends Monitor.

Option 4 is correct.

Risks of deglobalization have risen markedly since the Russian invasion of Ukraine. The war also greatly compounds a number of pre-existing adverse global economic trends, including rising inflation, extreme

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poverty aiding deglobalization. Supply chain disruptions, disruption to the international division of labour are some impacts of the war leading to deglobalization trends.

Option 5 is incorrect.

Economic globalisation, and not deglobalisation has contributed to climate change.

Freer flow of goods, services, technologies, finance and people is essential to deal with the challenges of climate change.

Also, globalisation and not **deglobalization can** reduce negative consequences of climate change. **Globalisation accelerates the diffusion of climate-friendly technologie**s through global networks of industry, capital flows and research and development. In addition, the spread of new technologies will facilitate monitoring and increase transparency on climate action.

Source: https://www.imd.org/research-knowledge/articles/brexit-shows-up-the-failures-of-globalisation/

https://www.chathamhouse.org/2021/10/what-deglobalization#:~:text=Some%20consider%20the%20world%20to,long%2Dterm%20in%20another%20country's

https://www.bloomberg.com/news/newsletters/2020-02-29/why-deglobalization-is-accelerating-bloomberg-new-economy

Q.43) Consider the following statements with reference to the Liquidity trap:

1. It is a situation when expansionary monetary policy does not increase the market interest rates.
2. Public would not want to purchase bonds during a Liquidity trap situation.
3. Open market operations has no effect on the market interest rates in case of a Liquidity trap.
4. Savings rates are high during Liquidity trap.

Which of the statements given above is/are correct?

a) 1 and 2 only
b) 4 only
c) 1, 3 and 4 only
d) 1, 2, 3 and 4

Ans) d

Exp) Option d is the correct answer.

Statement 1 is correct. Liquidity trap is a situation **when expansionary monetary policy (increase in money supply) does not increase the interest rate**, income and hence does not stimulate economic growth.

Liquidity trap is the extreme effect of monetary policy. It is a situation in which the general public is prepared to hold on to whatever amount of money is supplied, at a given rate of interest. They do so because of the fear of adverse events like deflation, war.

There is a liquidity trap at a short-term zero percent interest rate. When the interest rate is zero, the public would not want to hold any bond, since money, which also pays zero percent interest, has the advantage of being usable in transactions.

Statement 2 is correct. During a liquidity trap, consumers choose to avoid bonds and keep their funds in cash savings. It is because of the prevailing belief that interest rates could soon rise, which would push bond prices down. Because bonds have an inverse relationship to interest rates, many consumers do not want to hold an asset with a price that is expected to decline.

Statement 3 is correct. In case of Liquidity trap, a monetary policy carried out through **open market operations has no effect on either the interest rate, or the level of income.** In a liquidity trap, the monetary policy is powerless to affect the interest rate.

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Statement 4 is correct. In a liquidity trap situation, the interest rates in an economy are at extremely low levels and **savings rates are high.**
Source: https://economictimes.indiatimes.com/definition/liquidity-trap

Q.44) Consider the following statements about National monetisation pipeline (NMP):
1. Under NMP, the government transfers revenue rights to private parties in return for money or revenue share.
2. Roads, railways and power sector assets comprise more than half of the assets to be monetized under NMP.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Ans) c
Exp) Option c is the correct answer.
The Union Budget 2021-22 envisioned preparation of a "National Monetisation Pipeline" (NMP) to provide a direction to the monetisation initiative and visibility of investors. In pursuance of the same, NITI Aayog was tasked with creation of the National Monetisation Pipeline (NMP) for brownfield core infrastructure assets.
Statement 1 is correct. NMP aims to unlock value in **brownfield projects by engaging the private sector, transferring to them revenue rights and not ownership in the projects**, and using the funds so generated for infrastructure creation across the country.
In a monetisation transaction, the **government is basically transferring revenue rights to private parties for a specified transaction period in return for upfront money, a revenue share**, and commitment of investments in the assets.
Statement 2 is correct. Roads, railways and power sector assets will comprise over 66% of the total estimated value of the **assets to be monetised**, with the remaining upcoming sectors including telecom, mining, aviation, ports, natural gas and petroleum product pipelines, warehouses and stadiums.
Source:https://www.niti.gov.in/sites/default/files/2021-08/Vol_I_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf
https://www.india.gov.in/spotlight/national-monetisation-pipeline-nmp

Q.45) New Delhi declaration of BRICS adopted recently, deals with which one of the following subjects?
a) To cooperate for promotion of modern technologies
b) To resolve all disputes by peaceful means
c) To promote the generation of solar power
d) To build a parallel multilateral trading system

Ans) b
Exp) Option b is the correct answer.
Russian president announced military action in Ukraine to protect Russians from genocide and for de-Nazification and demilitarization of Ukraine.
At the end of the **virtual 13th BRICS Summit** on Thursday, the **New Delhi Declaration** was adopted.

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Paragraph 22 of the New Delhi declaration adopted on September 9, 2021, stated: "We (BRICS) underscore the **inadmissibility of the threat or use of force against the territorial integrity or political independence of any state**, or in any other manner inconsistent with the purposes and principles of United Nations.
The Declaration stated: "We express our concerns at the continuing conflicts and violence in different parts of the world. We affirm our commitment to the **principles of non-interference** in the internal affairs of States and reiterate that all **conflicts must be resolved by peaceful means** and through diplomatic and political efforts in line with the international law."
Source: Ukraine's situation, India's national interest-ForumIAS Blog
XIII BRICS Summit- New Delhi Declaration (mea.gov.in)
BRICS Delhi Declaration adopted; Focus on violence in Afghanistan, terrorism and drug trafficking | The Financial Express
XIII BRICS Summit: New Delhi Declaration (utoronto.ca)

Q.46) Consider the following statements about Factoring in India:
1. It is a financing arrangement in which a company sell its 'accounts receivable' to a third party to meet short-term liquidity needs.
2. Entities conducting factoring business are registered with the Reserve Bank of India.
3. In India, Non-Banking Financial Company (NBFC) are permitted to undertake factoring business.
Which of the statements given above is/are correct?
a) 1 only
b) 2 and 3 only
c) 1 and 2 only
d) 1, 2 and 3

Ans) d
Exp) Option d is the correct answer.
Statement 1 is correct. Factoring is a type of finance in which a business would sell its accounts receivable (invoices) to a third party to meet its **short-term liquidity needs.** Under the transaction between both parties, the factor would pay the amount due on the invoices minus its **commission or fees.**
Government of India has recently amended the **Factoring Regulation Act, 2011** which widens the scope of companies that can undertake factoring business.
Statement 2 is correct. It is compulsory for all entities to get registered with Reserve Bank of India to conduct factoring business.
An entity not registered with the Bank may not conduct the business of factoring unless it is an entity mentioned in Section 5 of the Factoring Act, 2011 i.e. a bank or any corporation established under an Act of Parliament or State Legislature, or a Government Company as defined under the Companies Act, 1956.
Statement 3 is correct. All the existing non-deposit taking NBFC-Investment and Credit Companies (NBFC-ICCs) with asset size of ₹1,000 crore & above will be permitted to undertake factoring business subject to satisfaction of certain conditions.
Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53131

Q.47) Barbell strategy seen in the news related to the economic survey, relates to which of the following?
a) It is an investing strategy by investing in both high-risk and low-risk assets.
b) It is a marketing strategy where a company focus solely on their desired public image.
c) It is an economic policy position favouring government intervention in the market process
d) It is an industrial policy for subsidizing export industries and promoting import-substitution.

Ans) a

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Exp) Option a is the correct answer.

The barbell strategy is an **investing strategy that aims to find a balance between risk and reward by investing in high-risk and low-risk assets** while eschewing more middle-risk options.

The barbell investing strategy is commonly used for fixed-income investing, but can also be used in equity markets. The goal is to lower an investor's overall risk profile while still giving exposure to higher-risk, higher-yielding assets.

In the Economic Survey the government explained how the Barbell Strategy, was put to use to cushion the Covid blow on India.

Under this strategy, a combination of safety nets for vulnerable sections and **real-time information-based policy adjustment** was brought into play to tackle the challenges posed by the COVID pandemic.

India adopted Barbell policy instead of its conventional policy approach known as the **Waterfall method as** Covid spread its tentacles in the country.

Source: https://economictimes.indiatimes.com/news/economy/policy/how-barbell-strategy-mentioned-in-last-years-economic-survey-was-put-to-work/articleshow/89242062.cms

Q.48) Which of the following is correct with reference to the National Statistical Office?

a) It is an autonomous body under the Ministry of Commerce and Industry.

b) It compiles the Index of Wholesale Price Index (WPI) every month.

c) It was formed on the recommendation of the Rangarajan Commission.

d) It has been recently separated from the National Sample Survey Office (NSSO).

Ans) c

Exp) Option c is the correct answer.

National Statistical Office acts as the nodal agency for planned development of the statistical system in the country, lays down and maintains norms and standards in the field of statistics, involving concepts and definitions, methodology of data collection, processing of data and dissemination of results.

Option a is incorrect: National Statistical Office is an autonomous body under the **Ministry of Statistics and Programme Implementation**.

Option b is incorrect: National Statistical Office compiles and releases the **Index of Industrial Production (IIP) every month** in the form of 'quick estimates'; conducts the **Annual Survey of Industries** (ASI); and provides statistical information to assess and evaluate the changes in the growth, composition and structure of the organized manufacturing sector.

Whole-sale price index (WPI) in India is published by the **Office of Economic Adviser**, Ministry of Commerce and Industry.

Option c is correct: NSO was formed on the recommendations of the **Rangarajan Commission**.

Option d is incorrect: The **National Statistical Office** (NSO) consists of the **Central Statistical Office (CSO),** the computer center and the **National Sample Survey Office (NSSO).** CSO and NSSO were merged into NSO in 2019.

Source: https://blog.forumias.com/national-statistical-office-nso/
https://blog.forumias.com/wholesale-price-index-wpi/

Q.49) Consider the following statements about Purchasing managers Index (PMI):

1. It is done on monthly basis based on facts such as new orders, output and employment.
2. It is an indicator of business activity in both the manufacturing and services sectors.
3. A PMI figure above 50 denotes expansion in business activity.

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Which of the statements given above is/are correct?
a) 1 only
b) 2 and 3 only
c) 1 and 2 only
d) 1, 2 and 3

Ans) d

Exp) Option d is the correct answer.

Purchasing Managers' Index or PMI is an economic indicator, which is derived after monthly surveys of different companies.

Statement 1 is correct. The PMI helps in determining whether **the market conditions, as seen by purchasing managers, is expanding, contracting or staying the same.** It is used to provide information regarding the current and future business conditions.

The PMI is derived by sending **fact-based questions to a large number of companies in the concerned sector.**

The questions are factual in nature and the survey is not meant for opinions, intentions, or expectations. The questions are related to 5 key variables. The variables with their weights in the index are – new orders (30%), output (25%), employment (20%), suppliers' delivery times (15%) and stock of items purchased (10%).

The surveys are conducted on a **monthly basis.**

Statement 2 is correct.

The index shows trends in both the manufacturing and services sector.

The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

Statement 3 is correct. The headline PMI is a number from 0 to 100. **A PMI above 50 represents an expansion** in business activity when compared with the previous month. Anything below 50 denotes contraction.

Source: https://www.investopedia.com/terms/p/pmi.asp

Q.50) Recent studies have shown that wind speeds in major Indian cities has been slowing down significantly over several decades. In this context, which of the following might be the most likely implications of slowing wind speed?
1. Changing rainfall patterns
2. Low output from wind energy sector
3. Higher transpiration rate in agricultural sector
4. Air pollution in cities will take longer to get dispersed

Select the correct answer using the codes given below:
a) 1, 2 and 3 only
b) 2, 3 and 4 only
c) 1, 2 and 4 only
d) 1, 2, 3 and 4

Ans) c

Exp) Option c is the correct answer.

This question is based on the article "**Winds of Change in Urban India that demand close investigation**" published in **Live Mint** on 26th Feb 2022. A recent analysis has shown that wind speed in major Indian cities has been slowing down consistently and significantly over several decades. The average wind speed has fallen by 47% in Hyderabad, 47% in Bengaluru, 46% in Kolkata.

The implications of Slowing wind speed are:

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Statement 1 is correct: Slow winds **cannot carry moisture** for long which will result in **altered rainfall patterns**.

Statement 2 is correct: Falling wind speed also has huge implications for the **wind-energy sector and thus for the clean energy sector.** Typically, a 5% fall in wind speed can lead to an almost 17% fall in wind energy in an average turbine.

Statement 3 is *incorrect*: Agriculture depends crucially on **transpiration** (a plant's exhalation of water vapour), which in turn needs evaporation which is dependent on wind speed. So, falling wind **speed reduce the transpiration rate** and impact plant growth.

Statement 4 is correct: Wind-dispersed plant species also depend on wind speeds for survival. They also affect **natural disasters and ocean dynamics**. This also means **that air pollution in cities** will take longer to get dispersed, exacerbating public-health problems.

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